

Medical Assistance  
State North Carolina

Payment for Services-Prospective Reimbursement Plan for Nursing Care  
Facilities

=====

(g) Effective October 1, 1994 the bloodborne pathogen cost required under title 29, Part 1910, Subpart 2 Section 1910.0130 of the Code of Federal Regulations shall be included in the nursing facility's direct cost reimbursement. Effective October 1, 1994 each facility's direct rate shall be increased based on the estimated cost of this service. The estimated cost will be taken from the fiscal year 93 cost report and will be set at the lower of the facility's actual bloodborne pathogen costs or the eightieth percentile. These costs shall be cost settled like all other direct care costs.

(h) Religious Dietary Considerations:

- (1) A standard amount may be added to a nursing facility's skilled and intermediate care rates, that may exceed the maximum rates determined under section .02102(b), for special dietary need for religious reasons.
- (2) Facilities must apply to receive this special payment consideration for religious reasons and must submit documentation for the increased dietary costs for religious reasons. Facilities must apply for this special benefit each time rates are determined from a new data base. Fifty or more percent of the patients in total licensed beds must require religious dietary consideration in order for the facility to qualify for this special dietary rate add-on.
- (3) The special dietary add-on rate may not exceed more than a thirty percent (30%) increase in the average skilled and intermediate care dietary rates calculated for the 80th percentile of facilities determined under rule .0102(b)(4) and adjusted for annual inflation factor each year until a new data base is used to determine rates.
- (4) This special dietary add-on rate will become part of the facility's direct rates to be reconciled in the annual cost report settlement.

(i) Effective October 1, 1994 nursing facilities are responsible for providing medically necessary transportation for residents, unless ambulance transportation is needed. The cost of this service shall be included with the facility's direct cost and therefore reimbursed under the facility's direct rate. Effective October 1, 1994 each facility's direct rate shall be increased for the estimated cost of this service. These costs shall be cost settled like all other direct care costs.

TN. No. 95-22  
Supersedes

Approval Date 11/22/95

Eff. Date 10/1/95

TN. No. 94-37

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care  
Facilities

---

.0103 REASONABLE AND NON-ALLOWABLE COSTS

(a) Providers have a responsibility to operate economically and efficiently so that their costs are reasonable. Providers are required to provide services at the lowest possible costs in compliance with Federal and State laws, regulations for licensing and certification, and standards for quality of care and patients' safety. Providers are also responsible for the financial actions of their agents (e.g., management companies) in this regard.

(b) The state may publish guidelines to define reasonable costs in certain areas after study of industry-wide cost conditions.

(c) The following costs are considered non-allowable facility costs because they are not related to patient care or are specifically disallowed under the North Carolina State Plan:

- (1) bad debts;
- (2) advertising - except personnel want ads, and one line yellow page (indicating facility address);
- (3) life insurance (except for employee group plans);
- (4) interest paid to a related party;
- (5) contributions, including political or church-related, charity and courtesy allowances;
- (6) prescription drugs and insulin (available to recipients under State Medicaid Drug Program);
- (7) vending machine expenses;
- (8) personal grooming other than haircuts, shampooing (basic hair care services) and nail trimming performed by either facility staff or barbers/beauticians. The facility may elect the means of service delivery. The costs of services beyond those provided by the nursing facility are the responsibility of the patient;
- (9) state or federal corporate income taxes, plus any penalties and interest;

TN. No. 92-21  
Supersedes  
TN. No. 91-44

Approval Date MAR 08 1993

Eff. Date 10/1/92

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care  
Facilities

---

- (10) telephone, television, or radio for personal use of patient;
- (11) penalties or interest on income taxes;
- (12) dental expenses - except for consultant fees as required by law;
- (13) personal income taxes, plus any penalties and interest;
- (14) farm equipment and other expenses;
- (15) retainers, unless itemized services of equal value have been rendered;
- (16) physicians' fees for other than utilization review or medical directors or medical consultants as required by law;
- (17) country club dues;
- (18) sitter services or private duty nurses;
- (19) fines or penalties;
- (20) guest meals;
- (21) morgue boxes;
- (22) leave days - except therapeutic leave;
- (23) personal clothing.
- (24) ancillary costs that are billable to Medicare or other third party payors.

(d) For those non-allowable expenses which generate income, such as prescription drugs, vending machines, etc., expense should be identified as a non-reimbursable cost center where determinable. If the provider cannot determine the proper amount of expense which is to be identified, then the income which was generated must be offset in full to the appropriate cost center.

TN. No. 92-21  
Supersedes  
TN. No. 91-44

Approval Date MAR 08 1993

Eff. Date 10/1/92

Medical Assistance  
State North Carolina

SEP 7 1994

Payment for Services - Prospective Reimbursement Plan for Nursing Care  
Facilities

---

.0104 COST REPORTING: AUDITING AND SETTLEMENTS

(a) Each facility that receives payment from the North Carolina Medicaid Program must prepare and submit a report of its costs, including costs to meet the requirements of OBRA 87 (section 1919 of the Social Security Act) and other financial information such as the working trial balance related to reimbursement annually. The report must include costs from the fiscal period beginning on October 1 and ending on September 30 and must be submitted to the state on or before the December 31 that immediately follow the September 30 year end. A new provider must submit a report for the period beginning with the date of certification and ending on September 30. Hospital based nursing facilities with a fiscal year ending other than September 30 and state operated facilities with a June fiscal year ending must file their cost reports within 90 days after their fiscal year ends. Facilities that fail to file their cost reports by the due date are subject to payment suspension as provided for under Section .0107(e)(6) until the reports are filed. The Division of Medical Assistance may extend the deadline 30 days for filing the report if, in its view, good cause exists for the delay.

(b) Cost report format. The cost report must be submitted on forms and in a format and medium approved by the Division of Medical Assistance. The account structure for the report is based on the chart of accounts published by the American Healthcare Association in 1979 but amended or modified to the extent necessary to meet the special reimbursement requirements of this plan. The Division of Medical Assistance will make one copy of the cost report format available to each facility (combination facilities receive only one) on or before July 1 of the reporting year for which the report is to be filed.

(c) Cost finding and allocation. Costs must be reported in the cost report in accordance with the following rules and in the order of priority stated.

- (1) Costs must be reported in accordance with the specific provisions of this plan as set forth in this Rule.
- (2) Costs must be reported in conformance with the Medicare Provider Reimbursement Manual, HCFA 15.
- (3) Costs must be reported in conformance with Generally Accepted Accounting Principles.

SEP 27 1994

TN. No. 94-23

Supersedes

TN. NO. 92-21

Approval Date \_\_\_\_\_

Eff. Date 10/1/94

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care Facilities

(d) The specific cost reporting guidelines related to this plan are set forth in the following paragraphs. The state will publish guidelines, consistent with the provisions of this plan, concerning the proper accounting treatment for items described in this Rule as related operating expenses. These guidelines may be modified prior to the beginning of each cost reporting period. In no case, however, shall any modifications be applied retroactively. A provider should request clarification in writing from the state if there is uncertainty about the proper cost center classification of any particular expense item.

- (1) Nursing Cost Center includes the cost of nursing staff, medical supplies, and related operating expenses needed to provide nursing care to patients, including medical records (including forms), utilization review, the Medical Director and the Pharmacy Consultant. The amount of nursing time provided to each patient must be recorded in order to allocate nursing cost between skilled and intermediate nursing care.

(A) **Effective October 1, 1996, Direct Patient Care Equipment shall be reported to the Nursing Cost Center and is defined as equipment which meets all of the following tests:**

- (1) **Its primary purpose is to enhance the quality, efficiency, or safety of the work of direct patient care personnel;**
- (2) **It enables direct patient care personnel to measure patients' physical characteristics or to implement the plans of care (including assistance with activities of daily living) of patients with physical impairments or to promote the safety of patients with cognitive impairments;**
- (3) **It is not office or bedroom furniture; and**
- (4) **It is not a communications device or computer hardware or software.**

The Division of Medical Assistance shall make available a non-all-inclusive list of items which may be reported as direct patient care equipment, consistent with the provisions of this plan. This list may be prospectively modified by the Division of Medical Assistance at any time, based on the preponderance of evidence. Items reported as direct patient care equipment which are not on this list are subject to a case by case review during any audit conducted under Section .0104(e). Providers must demonstrate by a preponderance of evidence that such items meet the definition of direct patient care equipment as stated in this plan.

Providers are required to exercise the prudent buyer principle when procuring direct patient care equipment. This provision is applicable to lease or depreciation expense incurred on or after October 1, 1996 regardless of when the equipment was initially leased or acquired. Direct patient care equipment maintenance and repair costs shall be reported in the Operation of Plant and Maintenance Cost Center. All other costs associated with direct patient care equipment shall be reported in the cost centers that would be appropriate if the costs were associated with other equipment.

- (2) Dietary Cost center includes the cost of staff, raw food, and supplies needed to prepare and deliver food to patients.
- (3) Laundry and Linen Cost Center includes the cost of staff, bed linens (replacement mattresses and related operating expenses needed to launder facility-provided items).

TN. No. 96-05  
Supersedes  
TN. No. 92-21

Approval Date MAR 13 1997

Eff. Date 10/01/96

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care Facilities

=====

- (4) Housekeeping Cost Center includes the cost of staff and supplies needed to keep the facility clean.
- (5) Patient Activities Cost Center includes the cost of staff, supplies, and related operating expenses needed to provide supplies, and related operating expenses needed to provide appropriate diversionary activities for patients.
- (6) Social Services includes the cost of social workers and related operating expenses needed to provide necessary social services to patients.
- (7) Ancillary Cost Center includes the cost of all therapy services covered by the Medicaid program and billable medical supplies. Providers must bill Medicare Part B for those ancillary services covered under the Medicare Part B program. Ancillary cost centers include: Radiology, Laboratory, Physical Therapy, Occupational Therapy, Speech Therapy, Oxygen Therapy, Intravenous Fluids, Billable Medical Supplies, Parenteral/Enteral Therapy and life sustaining equipment, such as oxygen concentrators, respirators, and ventilators and other specifically approved equipment. **Effective October 1, 1996, air fluidized beds (e.g. Clinitron beds), low air loss mattresses or beds and alternating pressure mattresses may be recorded in the life sustaining equipment cost center. This program is applicable to lease or depreciation expense incurred on or after October 1, 1996 regardless of when the equipment was initially leased or acquired.**
  - (A) Effective October 1, 1994, a separate ancillary cost center shall be established to include costs associated with medically related transportation for facility residents. Medically related transportation costs include the costs of vehicles leased or owned by the facility, payroll costs associated with transporting residents and payments to third parties for providing these services.
- (8) Administrative and General Cost Center includes all costs needed to administer the facility including the staff costs for the administrator, assistants, billing and secretarial personnel, personnel director and pastoral expenses. It includes the costs of copy machines, dues and subscriptions, transportation, income taxes, legal and accounting fees, start-up, and a variety of other administrative costs as set forth in the Chart of Accounts. Interest expense other than that stemming from mortgages or loans to acquire physical plant items shall be reported here.
- (9) Property Ownership and Use:

TN. No. 96-05  
Supersedes  
TN. No. 95-22

Approval Date MAR 13 1997

Eff. Date 10/01/96

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care Facilities

=====

- (A) This cost center includes all allowable costs related to the acquisition and/or use of the physical assets including building, fixed equipment and movable equipment, that are required to deliver patient care, except the special equipment, as specified in .0104(d)(1) or .0104(d)(7) of this plan. **Except for the special equipment noted in section .0104 (d)(1) and .0104(d)(7), it includes the following items:**
- (i) all equipment expense regardless of equipment nature,
  - (ii) lease expense for all physical assets,
  - (iii) depreciation of assets, utilizing the straight line method,
  - (iv) interest expense of asset related liabilities, (e.g., mortgage expense),
  - (v) property taxes.
- (B) For the purposes of computing allowable lease expense and for balance sheet presentation for Return on Equity computations (see section .0105), leases shall not be capitalized.

TN. No. 96-05  
Supersedes  
TN. No. 92-21

Approval Date MAR 13 1997

Eff. Date 10/01/96

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care  
Facilities

---

(C) In establishing the allowable cost for depreciation and for interest on capital indebtedness, with respect to an asset which has undergone a change of ownership, the valuation of the asset shall be the lesser of allowable acquisition cost less accumulated depreciation to the first owner of record on or after July 18, 1984 or the acquisition cost to the new owner. Depreciation recapture will not be performed at sale. The method for establishing the allowable related capital indebtedness shall be as follows:

- (i) The allowable asset value shall be divided by the actual acquisition cost.
- (ii) The product computed in step 1 shall be multiplied times the value of any related capital indebtedness.
- (iii) The result shall be the liability amount upon which interest may be recorded at the rate set forth in the debt instrument or such lower rate as the state may prove is reasonable.

The allowable asset and liability values established through the process in this Rule shall be those used in balance sheet presentations for return on equity computation (see Rule .0105). These procedures are established to implement the provisions of PL 98-369 Section 2314.

TN. No. 92-21  
Supersedes  
TN. No. 91-44

Approval Date MAR 08 1993

Eff. Date 10/1/92



Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care Facilities

=====

- (10) Operation of Plant and Maintenance Cost Center includes all cost necessary to operate or maintain the functionality and appearance of the plant. These include: maintenance staff, utilities repairs and maintenance to all equipment.
- (11) Equipment expense. Equipment is defined as an item with a useful life of more than two years and a value greater than five hundred dollars (\$500.00).
  - (A) **Effective October 1, 1996, Direct Patient Care Equipment depreciation or lease expense incurred on or after October 1, 1996, shall be reported under the Nursing Cost Center, as noted under .0104(d)(1) of this plan.**  
All other costs associated with direct patient care equipment shall be reported in the cost centers that would be appropriate if the costs were associated with other equipment.
  - (B) **Other equipment ownership and use costs shall be reported in the Property Ownership and Use Cost Center. Other equipment maintenance and repair costs shall be reported in the Operation of Plant and Maintenance Cost Center. Other equipment shall not be reported elsewhere.**
- (12) Training Expense. Training expense must be identified in the appropriate benefiting cost center. The costs of training nurse aides must be identified separately and may include the cost of purchasing programs and equipment that have been approved by the State for training or testing.
- (13) Home Office Costs. Home office costs are generally charged to the Administrative and General Cost Centers. In some cases, certain personnel costs which are direct patient care oriented may be allocated to "direct" patient care cost centers if time records are maintained to document the performance of direct patient care services. No home office overhead may be so allocated. The basis of this allocation among facilities participating in the North Carolina Medicaid program may be: (A) specific time records of work performed at each facility, or (B) patient days in each facility to which the costs apply relative to the total patient days in all the facilities to which the costs apply.

TN. No. 96-05  
Supersedes  
TN. No. 92-21

MAR 13 1997  
Approval Date \_\_\_\_\_

Eff. Date 10/1/96

Medical Assistance  
State North Carolina

Payment for Services - Prospective Reimbursement Plan for Nursing Care  
Facilities

---

- (14) Management Fees. Management fees are charged to the Administrative and General Cost Center. In some cases, however, a portion of a management fee may be allocated to a direct patient care cost center if time records are maintained to document the performance of direct patient care services. The amount so allocated may be equal only to the salary and fringe benefits of persons who are performing direct patient care services while employed by the management company. Adequate records to support these costs must be made available to staff of the Division of Medical Assistance. The basis of this allocation among facilities participating in the North Carolina Medicaid program may be: (A) specific time records of work performed at each facility, or (B) patient days in each facility to which the costs apply relative to the total patient days in all the facilities to which the costs apply.
- (15) Related Organization Costs. It is the nursing facility's responsibility to demonstrate by convincing evidence to the satisfaction of the Division of Medical Assistance that the costs are reasonable. Reasonable costs of related organizations are to be identified in accordance with direct and indirect cost center categories as follows:
- (A) Direct Cost:
- (1) Compensation of direct care staff such as nursing personnel (aides, orderlies, nurses), food service workers, housekeeping staff and other personnel who would normally be accounted for in a direct cost center.
  - (2) Supplies and services that would normally be accounted for in a direct cost center.
  - (3) Capital, rental, maintenance, supplies/repairs and utility costs (gas, water, fuel, electricity) for facilities that are not typically a part of a nursing facility. These facilities might include such items as warehouses, vehicles for delivery and offices which are totally dedicated or clearly exceed the number, size, or complexity required for a normal nursing facility, its home office, or management company.

TN. No. 92-21  
Supersedes  
TN. No. 91-44

Approval Date MAR 08 1993

Eff. Date 10/1/92